



Russia: Garage Equipment Market Overview

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Summary

The number of cars and trucks in Russia has grown tremendously over the last ten years and this trend continues today. However, the share of older vehicles in Russia is much higher than that in Western countries; and, as a result, those vehicles require extensive maintenance.

Service equipment enjoys favorable sales prospects because of steady growth in the number of new dealerships, service stations and repair shops. Growth in this sector reflects both the activities of automotive manufacturers to improve service facilities thus increasing their competitiveness and the overall restructuring of the Russian economy resulting into the transfer of labor from manufacturing to service industries.

Domestic competition is moderate, as Russian manufacturers lack modern technologies, equipment and financial resources to compete with importers. Third country firms, predominantly European, are active in the Russian market.

The local automotive aftermarket is likely to remain favorable in the near future, although it will require considerable effort and flexible marketing techniques for any company interested in sales here, since distribution channels are still underdeveloped.

Import barriers at this moment are not prohibitive, although certification procedures can be expensive and time-consuming. End Summary.

Market Demand

In the last few years, the Russian automotive market has grown at an annual rate of 20-30 percent. In 2005, many import car dealers reported record results by increasing total sales of new cars from 350,000 vehicles in 2004 to over 600,000. The 2006 result is estimated at over 800,000 units. The import of used vehicles remains stable. Those trends will continue to dominate in the next few years.

The total Russian motor vehicle fleet is estimated at over 31 million units, including 25 million cars, 50% of which are 10 years or older, and another 30% are between 5 and 10 years old; 5 million trucks and about one million buses.

The annual volume of new and used car sales in Russia is approximately \$18 billion. For new and used trucks, that figure is \$4 billion. Annual sales of new and used buses are \$2 billion.

The car market highlights the most exciting indices. Although the number of sold cars remains stable, the share of new imports is growing very rapidly. This market-restructuring trend has dominated during the last two years and is expected to dominate in the future. Thus, the dollar-denominated market size for cars is increasing very fast, due to both the price growth of domestic vehicles and the significant growth of import share.

Table 1

Best Selling Imported Cars in the Russian Market Sold Through Official Dealers in 2005 and Growth Rates (by Major Manufacturers)

Manufacturer /Brand	2003(units)	2004(units)	2005 (units)	Growth rate of 2005 over 2004 (percent)
Hyundai	14,561	50,686	87,500	72
Chevrolet*	na	56,514	66,532	18
Toyota	25,075	43,867	60,638	38
Ford	20,712	36,082	60,564	68
Daewoo	20,255	35,398	48,600	37
Mitsubishi	17,663	30,097	55,148	83
Nissan	9,470	28,434	46,485	63
Kia	12,420	18,759	25,000	51
Renault	11,357	16,126	29,177	80
Opel	7,318	9,153	9,139	0
Mazda	1,862	8,565	21,100	146
Peugeot	8,325	8,782	9,251	5
Volkswagen	6,335	7,588	13,911	83
Suzuki	4,044	6,685	9,803	47
Honda	3,574	6,009	8,906	48
Skoda	6,678	5,428	7,535	37
Volvo	5,027	5,048	5,700	13
BMW	3,774	4,807	6,678	39
Citroen	2,973	4,345	6,922	59
Audi	3,111	4,100	5,500	34
Mercedes-Benz	3,205	4,029	4,848	20
Subaru	1,272	3,733	4,160	11
Lexus	1,397	3,559	5,369	51
Land Rover	1,582	2,436	4,075	67
Total	195,693	409,119	614,028	50

* - including locally-manufactured Chevrolet-Niva and Chevrolet-Viva

With rapidly increasing sales of imported vehicles, the demand for new dealerships is also growing. During the last five years dealerships operators have doubled the number of showrooms and service centers in Moscow and St. Petersburg. All those new facilities require modern equipment in compliance with car manufacturers' standards.

In addition, automotive purchase financing opportunities are becoming more and more attractive for customers, and the share of vehicles sold through bank financing has grown from almost zero in 2000 to 30 percent in 2004. Business analysts believe that in 2005 this share will reach 50 percent. As a result, buyers can afford more expensive vehicles with a set of modern features. As a share of new imported vehicles grows, owners tend to spend more for quality service.

Thus, the rapid growth in sales of new imported vehicles spurs an increase in demand for imported service equipment since warranties require servicing new vehicles only with licensed dealerships that are equipped with modern repair and diagnostic tools. In turn, vehicle manufacturers demand that their distributors invest in the construction of international standard service stations, thus increasing the demand for new service equipment.

Industry analysts project steady growth in this market because of the following factors:

- An increasing number of service stations and repair shops will result in stronger demand for quality service and testing equipment.
- With increasing household incomes, Russian consumer behavior tends to be changing from a focus on the cheapest options to paying for quality.

Market Data

Reliable statistics are not available for the dollar value and import structure of the market for automotive service and garage equipment. However, industry specialists estimate the market as follows:

Table 2. Garage Equipment Market Snapshot (rough estimations, official statistics are unavailable) (In millions of U.S. dollars. \$1 = R 27.00)

	2003	2004	2005	2006
A. Total Market Size	850	920	1,000	1,100
B. Total Local Production	400	420	440	500
C. Total Exports	na	na	na	na
D. Total Imports	450	500	560	600
E. Imports from the U.S.	50	52	55	60

Source: Industry experts' estimations based on available data and interviews with distributors.

Best Prospects

HS 847989	Automotive Maintenance Machines
HS 842489	Car Washing Machines
HS 842541	Built-in Jacking Systems
HS 902710	Gas Or Smoke Analysis Apparatus
HS 854389	Tire Removing Equipment
HS 903180	Wheel Alignment and Balancing Systems
HS 903180	Internal Combustion Engines Testing Equipment
HS 903289	Electronic Ignition Analyzers

Key Suppliers

Domestic Production

The garage equipment industry in Russia has never been well developed, since this sub-sector was not considered important by government authorities that used to manage economic development. During fifteen years of market reforms, very few manufacturers were able to compete with imports. The only way to survive was through cooperation with Western garage equipment manufacturers that could supply modern technologies and know-how. An example of such cooperation is the Novgorod-based Garo Company. In 2000, it established a joint venture with German Cartec and Hoffmann, subsidiaries of U.S. garage equipment market leader Snap-On.

Most basic service equipment (e.g., tools, lifts, painting equipment, etc.) is still domestically produced, but increasingly obsolete and offered in a limited range. As a result, end-users have turned to more reliable and contemporary imports, despite higher prices. Currently, almost all of tire-repair shops in Moscow and St. Petersburg utilize imported tire-removing and balancing equipment. Modern computerized engine testing equipment is also all imported.

Although most companies in the service equipment industry have been privatized, their structure, customer service, and management remain unchanged. Many firms suffer from ineffective management and outdated equipment and have serious financial problems. Although the automotive market is expanding, and sales at these companies are increasing, the entire industry's future looks uncertain.

Third Country Suppliers

European manufacturers actively supply or have discussed JV opportunities to supply to the Russian market. Major players include German Bosch, Maha, Sata, Gutmann, Festool, Nussbaum, Pressol, Lutro, Romess, Trommelberg and Volz Luftfilter, Italian Autoequip Lavaggi, Deca, Ravaglioli, Fini Compressors, Flexbimec, Future Automotive, Meclube, Piusi, Raasm, Sicam, Stanzani, Spanesi, Canadian ICA, Nova Verta, Taiwanese Shinn Fu, Swedish Hedson Technologies, and French Celette.

U.S. Companies are not as active in the Russian market as European firms. Snap On Corporation operates in the market through wholesale distributors and a joint venture with the Russian manufacturer Garo Company. Other well-known U.S. brands in this sector of the Russian aftermarket industry include Hunter, John Bean, and R.G. Grabber.

U.S. garage and service equipment is well accepted by Russian customers. Russian equipment manufacturers are eager to cooperate with prominent U.S. companies in this segment. However, U.S. suppliers should be proactive in establishing sales in Russia, since only suppliers that can offer significant competitive advantages can succeed in the market.

Prospective Buyers

End-users for Garage Equipment include:

1. Service stations and repair shops
2. New vehicle dealerships
3. Fleet owners (private and public)
4. Vehicle inspection authorities

There are about 20,000 private service stations and repair shops in Russia. They do routine automotive services and repairs. They also offer car washing and rust-protection, since almost all buyers of new Russian cars have their cars rust proofed.

The hi-end of the market is represented by approximately 2,000 service garages that belong to authorized dealerships which sell new cars directly from OEMs. Approximately half of these companies service imported cars and are required to comply with the OEM corporate standards by the equipment they use.

Usually, those garages are given recommendations on the equipment they should purchase by the dealer development offices of their OEM suppliers.

Small- and medium-size private firms, specializing in automotive repair and maintenance, are major consumers of service equipment. They service older used imports and domestic cars and purchase equipment and hand tools from distributors. These companies are now trying to modernize their equipment to be competitive with new dealerships.

Low-end services target old Russian and foreign cars. Those firms buy either domestic or used imported equipment from distributors and from retail.

Several automotive service chains have recently opened and are successfully developing. Usually, such companies source products from distributors, although large volume chain operators are increasingly turning to direct imports to reduce expenses. The most widely recognized service chains are MBO, Auto Union, and Alarm.

For the most part, Russian fleets consist of domestic vehicles. However, after the market reforms of the 1990's, there is an increasing number of imported vehicles in domestic fleets. Municipalities own fleets of imported ambulances and police cars, and truck fleets now include foreign makes in order to compete with foreign transportation firms. Many truck fleets include Volvo, Mercedes, DAF, SISU and Scania. Fleet owners generally source equipment and tools from distributors.

Municipal transportation authorities, operating bus and minivan fleets, are also important consumers of garage equipment. They source the equipment from distributors, as well as vehicle inspection authorities, which buy brake testing, lighting and emission control equipment.

Market Entry

Distribution/Business Practices

New-to-market suppliers interested in the market should find capable agents or distributors who are knowledgeable about both importing and distribution. Local traders have expressed interest and a willingness to act as agents and/or distributors for American exporters of quality products. However, they note that a potential U.S. supplier must be very competitive to succeed in this market.

Recommendations

The most important factors that must be considered by U.S. companies interested in entering the Russian automotive aftermarket are:

- pricing strategy;
- delivery policies;
- education/training of potential dealers and customers;
- willingness to invest in product promotion/brand building

Recommended marketing techniques include:

- direct contacts with Russian trade firms specializing in garage and service equipment;
- exhibiting at local and national shows;
- advertising through specialized journals; and
- presentations and seminars (Russian-language translation of technical information is very important).

U.S. firms have significant sales potential. With the right game plan and aggressive marketing, it is possible to increase ones presence throughout Russia. Even though there are initial challenges to establishing a presence, efforts do pay off and many current U.S. exporters are profitable in this market.

If your firm is thinking of entering this market - or increasing its presence – we offer the following recommendations:

1. Minimize delivery periods. Because of local financial conditions, Russian importers are very concerned with timely delivery and it is one of the chief reasons they currently import more European products than American. Also, make shipments routine. If you decide to channel sales to Russia through a European distributor, clarify to the distributor that your business in Russia is a priority and that they should maintain competitive prices.
2. Pay attention to how your products are presented. You should always include printed, Russian-language promotional materials. This will lend your products an additional competitive advantage by showing that you consider Russia's market to be significant. Packaging materials should clearly show your company and brand name, and whenever appropriate, carry a "Made in USA" label. Your packaging should maximize the amount of product that it contains, or the Russian partner/consumer may feel that he's paying for dead space.
3. Always follow up. If you had initial talks with potential distributors and they expressed interest in your product, do not let the communication stall. If you do, your potential partners may decide that the talks were not serious. Be sincere with potential partners. If necessary, patiently explain why their terms are not acceptable, and try to find mutually acceptable alternatives. The U.S. Commercial Service in Russia is always available to facilitate such communication.
4. Don't be penny-wise. The minimum investment required to start sales in a typical Russian region could be between \$25,000 – \$50,000. This amount is necessary for travel to Russia, consultant fees, and expenses related to joint promotion and product certification. Again, many of the U.S. Commercial Service's programs are designed to assist you in this phase of developing your export strategy.
5. Offer an attractive price. The market is very price-sensitive, so you will have to offer the lowest possible export price to beat competitors. If necessary, re-visit your pricing strategy only after you have achieved brand recognition, familiarity with retail partners, and your market share is secure.
6. Hone your competitiveness. In order for your products to stand out, draw attention to their advantages, such as exceptional quality, innovative features, substantially lower prices, or special payment terms. You might also offer dealers marketing support that provides joint financing for local trade shows and advertising campaigns and a supply of promotional materials. Firms offering stateside training on product applications might also enjoy a competitive advantage. Above all, you should prove that your products and terms are the best.
7. Don't be too trusting or overly suspicious. If a dealer asks you to extend credit and you don't have an established relationship, explain that such cooperation can be cultivated through successful partnership. You should offer prepayment (or letter of credit) terms for initial shipments and gradually transition to credit. If your company policy allows credit for a reputable foreign purchaser, contact their other suppliers to learn whether the buyer consistently meets its financial obligations. In any case, prior to entering any agreements, request references or order a bone-fide check with a reputable firm providing due diligence services. The U.S. Commercial Service can conduct a potential partner background check through our International Company Profile (ICP) program.
8. Consider certification issues. There are no compulsory certification requirements for any imported automotive aftermarket products. Nonetheless, your Russian partner might wish to pursue certification in order to facilitate promotion among retailers and wholesale customers. The importer should shoulder the burden of certification, while you do your best to promptly supply U.S. (or other) certificates. You might also offer to share related expenses.

9. Be wary of offering exclusive distribution rights. In some cases, ineffective exclusive dealers have discouraged U.S. suppliers from further marketing in Russia. Exclusive distribution rights should only be granted to a tried and true partner with a successful history of developing your product's market.

10. Think regionally. Many Russian dealers are successful in other NIS countries. Establishing a market presence in Russia may eventually help you enter other regional markets. When you are prepared to take that step, the U.S. Commercial Service will be happy to assist.

Market Issues and Obstacles

Import Climate

An 18% Value Added Tax (VAT) applies to all imported goods.

Import tariffs specific to selected garage equipment products are reflected in the following table:

HS Code	Commodity	Import Tariff (percent)
842489	Car Washing Machines	10
842541	Built-in Jacking Systems	10
847989	Automotive Maintenance Machines	0
847989	Tire Removing Equipment	0
902710	Gas Or Smoke Analysis Apparatus	5
903180	Wheel Alignment and Balancing Systems	5
903180	Engine Testing Equipment	0
903289	Electronic Ignition Analyzers	5

Note: Russian tariffs are subject to change. Readers should contact the Information Service of the Russian Customs Committee for the latest information. The following websites contain useful information: www.gtk.ru, www.tks.ru, www.vch.ru, <http://customs.ctm.ru/>

Certification

Certification is an important consideration for prospective imports, as any new product to be used or consumed by the public is subject to certification for quality, conformity, and safety. Certification requires testing and approval of a product sample in one of a small number of labs. The final certificate permits the company to import its product for sale on the Russian market. The length of the certification procedure depends on the complexity of the product and the number of tests required. Rosstandart, the Russian certification authority, has mutual recognition agreements with a number of foreign certification agencies, including DIN GOST TUV (Germany), SGS (Switzerland), Mertcontrol (Hungary). U.S. products holding such certification do not require re-certification in Russia.

Financing

Due to uncertain economic conditions and a weak banking and credit system, industry analysts recommend that Russian buyers prepay for goods, especially on first transactions. However, selling new products in this emerging market also requires that exporters be flexible enough to compete with domestic producers, as well as with manufacturers from third countries, many of which offer delayed payment terms.

Local trading companies note that a prepayment requirement for American products puts U.S. goods at a competitive disadvantage due to long delivery times. Most Russian end-users and intermediaries surveyed say that they request some type of delayed payment arrangement. In this situation, a model compromise would include prepayment for initial transactions followed by a credit line as the relationship develops.

Trade Events

Moscow International Motor Show (Moscow) – <http://www.motorshows-ite.com/>
Auto & Automechanika (St. Petersburg) – <http://automechanika.messefrankfurt.com/petersburg/en/>
Autotec – www.autotec.ru (Moscow)

Resources and Key Contacts

Moscow Automotive Service and Repair Association (MAPTO) – www.mapto.ru

Publications:

Auto repair (monthly) – www.remontauto.ru

Register Auto Market (annual) – www.imr.ru

For More Information

The U.S. Commercial Service in St. Petersburg, Russia can be contacted via e-mail at: alexander.kansky@mail.doc.gov Phone: +7-812-326-2581; Fax: +7-812-326-2561 or visit our website: www.buyusa.gov/russia/en

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